

**CHALLENGES OF INITIAL PUBLIC OFFEREINGS: A CASE STUDY OF THE NAIROBI
SECURITIES EXCHANGE**

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ABSTRACT

As an instrument of privatization, NSE has provided an avenue of liberalization of sectors previously dominated by the government and facilitated by public divestiture of its shares in public enterprises. According to the World Bank Capital Market Integration, in 2003-2005, the NSE experienced robust activity and high returns on investment. The NSE accounts for 90% of market activity in the East African Region and is a reference point in terms of setting standards for the other markets in the region. As an emerging capital market, the NSE has faced challenges in its development and growth such as economic depression and political uncertainty among others. The study set out to determine the challenges of Initial Public Offerings (IPO). The study was guided by the pecking order theory, trade-off theory, expected utility theory, signaling theory and the efficient market hypothesis. The research used a case study approach of 28 companies listed on the NSE for the period 2004-2008. Data was collected through questionnaires and interviews with the Chief Finance Officers (CFOs) from the 28 companies. Both quantitative and qualitative data was used. CFOs exhibited mixed responses to some of the factors, the study findings indicated that:

Issues and motivations that influence the decision to undertake an IPO; Company/ industry characteristics that influence the decision to undertake an IPO and how a company can enhance success of the IPO were either very important or important. The factors are therefore significant in the going public decision.

The study recommends that companies should list their shares in the NSE to raise capital as opposed to using debt. In addition, the study recommends that before making/ considering the decision to undertake an IPO, the company should understand its internal and industry characteristics that are likely to affect the IPO. Observing and analyzing performance indicators of previous IPO issues is crucial to a company's decision to go public.

Key words: Equity, debt, capital markets and privatization

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